



GREATER
KOKSTAD
MUNICIPALITY

PROVINCE OF KWAZULU-NATAL

Greater Kokstad Local Municipality
Annual Financial Statements
for the year ended 30 June 2020

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

LEGAL FORM OF ENTITY	Local Municipality																																								
MEMBERS OF THE COUNCIL	<table><tr><td>Cllr B M Mtolo</td><td>Mayor</td></tr><tr><td>Cllr Z A Mhlongo</td><td>Speaker</td></tr><tr><td>Cllr K J Walker</td><td>Deputy Mayor</td></tr><tr><td>Cllr M N Dumisa</td><td>Member of Executive Committee</td></tr><tr><td>Cllr H T Mngonyama</td><td>Member</td></tr><tr><td>Cllr N Nguza</td><td>Member</td></tr><tr><td>Cllr M Figlan</td><td>Member</td></tr><tr><td>Cllr N Mavuka</td><td>Member</td></tr><tr><td>Cllr N Mfukuli</td><td>Member</td></tr><tr><td>Cllr E Bhengu</td><td>Member</td></tr><tr><td>Cllr M N L Madikizela</td><td>Member</td></tr><tr><td>Cllr Z R Tshazi</td><td>Member</td></tr><tr><td>Cllr N Lusawana</td><td>Member</td></tr><tr><td>Cllr K Putuma</td><td>Member</td></tr><tr><td>Cllr N M Mayeza</td><td>Member</td></tr><tr><td>Cllr B L Marncé</td><td>Member</td></tr><tr><td>Cllr M N Dlakavu</td><td>Member</td></tr><tr><td>Cllr L N Mashibhini</td><td>Member</td></tr><tr><td>Cllr Z Tshangase</td><td>Member</td></tr><tr><td>Cllr T O Madikizela</td><td>Member</td></tr></table>	Cllr B M Mtolo	Mayor	Cllr Z A Mhlongo	Speaker	Cllr K J Walker	Deputy Mayor	Cllr M N Dumisa	Member of Executive Committee	Cllr H T Mngonyama	Member	Cllr N Nguza	Member	Cllr M Figlan	Member	Cllr N Mavuka	Member	Cllr N Mfukuli	Member	Cllr E Bhengu	Member	Cllr M N L Madikizela	Member	Cllr Z R Tshazi	Member	Cllr N Lusawana	Member	Cllr K Putuma	Member	Cllr N M Mayeza	Member	Cllr B L Marncé	Member	Cllr M N Dlakavu	Member	Cllr L N Mashibhini	Member	Cllr Z Tshangase	Member	Cllr T O Madikizela	Member
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Cllr T O Madikizela	Member																																								
GRADING OF LOCAL AUTHORITY	Grade 3																																								
MUNICIPAL MANAGER	Mr L H Mapholoba																																								
CHIEF FINANCE OFFICER (CFO)	Mr T L Mketsu																																								
REGISTERED OFFICE	75 Hope Street Kokstad 4700																																								
POSTAL ADDRESS	P O Box 08 Kokstad 4700																																								
BANKERS	First National Bank, a Division of FirstRand Bank Ltd																																								
PHONE NUMBER	039 797 6601																																								
E-MAIL ADDRESS	imelder.adkins@kokstad.gov.za																																								
AUDITORS	Auditor General South Africa (AGSA)																																								

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Index

The reports and statements set out below comprise the annual financial statements presented to the Council:

	Page
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8 - 9
Accounting Policies	10 - 30
Notes to the Annual Financial Statements	31 - 65

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 65, in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

I certify that the salaries, benefits and allowances as disclosed in note 30 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the constitution, read with the Remuneration of Public Officers Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 65, are prepared on the basis that the municipality is a going concern and has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Accounting Officer
L H MAPHOLOBA
30 October 2020

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

	Note(s)	2020 R	2019 R
Assets			
Current Assets			
Inventories	4	1 985 542	1 754 973
Receivables from non-exchange transactions	6	36 514 636	42 616 464
Prepayments	7	527 307	539 875
Receivables from exchange transactions	8	25 332 741	29 763 005
Cash and cash equivalents	9	117 921 359	116 761 147
		182 281 585	191 435 464
Non-Current Assets			
Investment property	10	100 033 382	96 650 610
Property, plant and equipment	11	598 601 921	544 344 441
Intangible assets	12	1 508 909	1 716 706
Heritage assets	13	2 066 400	2 066 400
		702 210 612	644 778 157
Total Assets		884 492 197	836 213 621
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	53 337 302	37 641 014
VAT payable	5	4 705 589	1 008 812
Consumer deposits	15	4 524 843	4 444 984
Employee benefit obligation	19	1 312 000	1 108 476
Unspent conditional grants and receipts	16	10 521 358	5 877 840
Provisions	17	2 001 718	1 956 143
Deferred income	18	4 066 121	3 536 291
Bank overdraft	9	-	689 883
		80 468 931	56 263 443
Non-Current Liabilities			
Employee benefit obligation	19	23 327 004	20 157 058
Total Liabilities		103 795 935	76 420 501
Net Assets		780 696 262	759 793 120
Accumulated surplus		780 696 263	759 793 100

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

	Note(s)	2020 R	2019 R
Revenue			
Revenue from exchange transactions			
Service charges	20	140 840 293	133 804 925
Rental of facilities and equipment	21	1 876 336	2 144 956
Licences and permits	22	3 096 644	3 173 751
Gain on disposal of assets		-	1 651 723
Other income		2 960 382	4 879 431
Interest earned - external investments	24	9 105 379	8 877 410
Total revenue from exchange transactions		157 879 034	154 532 196
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	115 300 827	129 808 505
Interest earned - outstanding receivables	25	3 794 507	4 453 581
Transfer revenue			
Government grants and subsidies	26	115 475 233	124 620 926
Recovery for Provision Debtors		3 297 307	-
Fines	27	2 803 051	1 378 782
Fines impairment recovery		-	353 488
Provision for performance recovery of bonuses		1 644 452	1 802 218
Total revenue from non-exchange transactions		242 315 377	262 417 500
Total revenue	28	400 194 411	416 949 696
Expenditure			
Employee costs	29	(134 202 825)	(116 742 681)
Remuneration of councillors	30	(7 582 079)	(7 201 499)
Repairs and maintenance		(9 982 298)	(8 783 267)
Depreciation and amortisation	31	(35 693 669)	(34 728 485)
Debt written off	32	(16 345 553)	(2 299 738)
Bulk purchases	33	(98 433 057)	(86 852 689)
Provision of impairment of debtors expense	8	(492 367)	(8 956 794)
Contracted services	34	(24 636 851)	(20 607 159)
General Expenses	35	(54 010 565)	(48 752 778)
Total expenditure		(381 379 264)	(334 925 090)
Gain / (Loss) on disposal of assets and liabilities		-	(23 012)
Gain / (Loss) on Actuarial	19	(1 294 754)	(5 627 683)
Fair value adjustments	10	3 382 771	3 124 113
		2 088 017	(2 526 582)
Surplus for the year		20 903 164	79 498 024

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 01 July 2018	680 295 076	680 295 076
Changes in net assets		
Surplus for the year	79 498 024	79 498 024
Total changes	79 498 024	79 498 024
Balance at 01 July 2019	759 793 099	759 793 099
Changes in net assets		
Surplus for the year	20 903 164	20 903 164
Total changes	20 903 164	20 903 164
Balance at 30 June 2020	780 696 263	780 696 263

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

	Note(s)	2020 R	2019 R
Cash flows from operating activities			
Receipts			
Taxes		77 956 827	95 215 376
Sale of goods and services		147 136 663	136 251 370
Grants		160 233 841	124 620 926
Interest income		9 105 379	8 877 410
Other receipts		4 447 503	1 378 782
		<u>398 880 213</u>	<u>366 343 864</u>
Payments			
Employee costs		(132 807 003)	(119 392 632)
Suppliers		(173 789 878)	(153 581 637)
		<u>(306 596 881)</u>	<u>(272 974 269)</u>
Net cash flows from operating activities	36	<u>92 283 332</u>	<u>93 369 595</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(89 610 135)	(92 563 292)
Proceeds from sale of property, plant and equipment	11	-	1 044 433
Purchase of other intangible assets	12	(133 218)	-
Purchases of heritage assets	13	-	(170 000)
Net cash flows from investing activities		<u>(89 743 353)</u>	<u>(91 688 859)</u>
Cash flows from financing activities			
Finance lease receipts		-	128 221
Net increase in cash and cash equivalents		<u>2 539 979</u>	<u>1 808 957</u>
Cash and cash equivalents at the beginning of the year		116 071 263	114 262 305
Cash and cash equivalents at the end of the year	9	<u>117 921 359</u>	<u>116 071 263</u>

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	161 420 000	-	161 420 000	140 840 293	(20 579 707)	48
Rental of facilities and equipment	1 328 631	400 000	1 728 631	1 876 336	147 705	48
Licences and permits	4 380 385	-	4 380 385	3 096 644	(1 283 741)	48
Other income	4 729 000	2 540 000	7 269 000	2 960 382	(4 308 618)	48
Investment revenue	8 972 000	-	8 972 000	9 105 379	133 379	48
Total revenue from exchange transactions	180 830 016	2 940 000	183 770 016	157 879 034	(25 890 982)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	131 746 000	-	131 746 000	115 300 827	(16 445 173)	48
Interest earned - outstanding receivables	4 809 000	-	4 809 000	3 794 507	(1 014 493)	48
Transfer revenue						
Transfer recognised - Operational & Capital	69 940 000	226 000	70 166 000	70 205 478	39 478	48
Rates Impairment Recovery	-	-	-	3 297 307	3 297 307	48
Fines, Penalties and Forfeits	1 850 000	-	1 850 000	2 803 051	953 051	48
Provision for performance bonus recovery	-	-	-	1 644 452	1 644 452	48
Total revenue from non-exchange transactions	208 345 000	226 000	208 571 000	197 045 622	(11 525 378)	
Total revenue	389 175 016	3 166 000	392 341 016	354 924 656	(37 416 360)	
Expenditure						
Employee costs	(144 230 000)	7 943 000	(136 287 000)	(134 202 825)	2 084 175	48
Remuneration of councillors	(8 279 000)	-	(8 279 000)	(7 582 079)	696 921	48
Repairs and maintainance	(27 180 000)	4 957 000	(22 223 000)	(9 982 298)	12 240 702	48
Depreciation and asset impairment	(44 967 000)	44 967 000	-	(35 693 669)	(35 693 669)	48
Debt Impairment	(14 400 000)	-	(14 400 000)	(16 345 553)	(1 945 553)	48
Material & Bulk purchases	(111 358 000)	12 000 000	(99 358 000)	(98 433 057)	924 943	48
Provision of impairment of debtors	-	-	-	(492 367)	(492 367)	48
Contracted Services	(55 975 000)	8 082 000	(47 893 000)	(24 636 851)	23 256 149	48
Transfers and subsidies	-	1 000 000	1 000 000	-	(1 000 000)	48
General expenses	(25 025 000)	(48 144 000)	(73 169 000)	(54 010 565)	19 158 435	48
Total expenditure	(431 414 000)	30 805 000	(400 609 000)	(381 379 264)	19 229 736	
Surplus/(Deficit)	(42 238 984)	33 971 000	(8 267 984)	(26 454 608)	(18 186 624)	
Gain / (Loss) on Actuarial	50 318 000	16 170 000	66 488 000	(1 294 754)	(67 782 754)	48
Fair value adjustments	-	-	-	3 382 771	3 382 771	48
	50 318 000	16 170 000	66 488 000	2 088 017	(64 399 983)	

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	
Surplus	8 079 016	50 141 000	58 220 016	(24 366 591)	(82 586 607)	
Surplus for the year from continuing operations	8 079 016	50 141 000	58 220 016	(24 366 591)	(82 586 607)	
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	50 318 000	16 170 000	66 488 000	45 269 755	(21 218 245)	48
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	58 397 016	66 311 000	124 708 016	20 903 164	(103 804 852)	

The basis of determining the materiality is anything above 10%.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Critical judgements, estimates and assumptions

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.3 Critical judgements, estimates and assumptions (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Useful life assessment of PPE and intangible assets

The municipality's management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and other assets. This estimate involves a matter of industry norms and on the pattern in which an asset's future economic benefit or service potential is expected to be consumed by the municipality. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated useful lives and decrease the depreciation and amortisation charges where useful lives are more than previously estimated useful lives.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction cost once it meets the definition of investment property. Investment Property is initially recognised when future economic benefits or service potential are probable and the cost or fair value can be determined reliably.

The cost of self-constructed investment property is the cost at date of completion.

Subsequent measurement - Fair value model

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

Derecognition

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.4 Investment property (continued)

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the statement of financial performance in the period of retirement or disposal.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

All transfers will be as per GRAP 16.

1.5 Property, plant and equipment

Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Initial measurement

Items of property plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site in which it is located.

Where an asset is acquired is acquired by the municipality for no or nominal consideration (i.e a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent measurement - Cost Model

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.5 Property, plant and equipment (continued)

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have useful lives that are depreciated separately.

Land is not depreciated as it is deemed to have indefinite useful life.

Capital work in progress is not depreciable until it is transferred to the applicable property, plant and equipment category once it is ready and available for its intended use.

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimates in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset maybe impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount) and an impairment amount is charged to the Statement of Financial Performance.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	80 years
Motor vehicles	Straight line	5-7 years
Infrastructure	Straight line	
• Roads and pavings		12 years
• Bridges		30 years
• Storm water		15 years
• Gravel		20 years
• Substation and Transformers		30 years
• Poles, Cables and Lights		15-25 years
• Robots		10 years
Community	Straight line	
• Buildings		80 years
• Recreational facilities		5 years
• Security system		5 years
• Dams		1-15 years
• Libraries		15-20 years
• Parks and Gardens		15 years
• Cemeteries		15-20 years
• Community centres		5-20 years
• Sports facilities		30 years
Other property, plant and equipment	Straight line	
• Emergency equipment		5 years
• Landfill sites		15 years
• Office equipment		5 years
• Furniture and fittings		5 years
• Bins and containers		5 years
• Computers equipment		5-8 years

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.6 Intangible assets

Initial Recognition

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. A heritage asset shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
- (b) the cost or fair value of the asset can be measured reliably.

Initial Measurement

An asset that has met the recognition requirement criteria for heritage assets shall be measured at its cost if such an asset has been acquired through an exchange transaction.

Where a heritage asset has been acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Subsequent Measurement

Heritage assets are not depreciated based on their nature however the municipality assesses at each reporting date whether there is a need for impairment.

The class of heritage assets are carried at its cost less any accumulated impairment losses.

Derecognition

The carrying amount of a heritage asset is derecognised:

- (a) on disposal, or
- (b) when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 Intangible Assets

Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised.

Research/feasibility expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential;
- the municipality has the ability to measure reliably the expenditure during development."

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.7 Intangible Assets (continued)

Initial measurement

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up

Subsequent measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Residual value of intangible assets is estimated to be zero. Fully depreciated assets which are still in use are not written off.

Amortisation

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 - 8 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality test intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Intangible assets are derecognised when the assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Prepayments	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Deferred Income	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.9 Trade and other receivables

Consumer Debtors per impairment category

Category A

- Regular payers and Government Accounts - 0%
- Consumers with accounts not older than 60 days, and;
- Government.

Category B

- Regular payers (50% less than 180 days and 100% on rest); and
- Amounts owing but do pay.

Category C

- Doubtful 100% all amounts;
- Consumers with no payment history;
- Owing longer than 60 days with no payments for 6 months; and
- Inactive accounts.

The municipality individually assesses the debtors.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.10 Leases

The Municipality as lessee

Recognition

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payment due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payment, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Measurement

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies application to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayments using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies related to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful lives or the lease term.

Derecognition

The finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

The operating lease liability is derecognised when the entity's obligation to settle the liability is extinguished. The operating lease asset is derecognised when the entity no longer anticipates economic benefits to flow from the asset.

Operating leases - lessee

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.10 Leases (continued)

The Municipality as Lessor

For those leases that meet the definition of a finance lease, where the entity is the lessor, the entity derecognises the asset subject to the lease at the inception of the lease. Along with the derecognition of the asset the entity recognises a finance lease receivable. Finance lease income is allocated to between the finance lease receivable and finance income using the effective interest rate method and the resulting finance income is recognised in the Statement of Financial Performance as it accrues.

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, in the period that the income accrues.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Measurement

Finance lease receivables are recognised at an amount equal to the entity's net investment in the lease. This net investment in the lease is calculated as the sum of the minimum future lease payments and unguaranteed residual value discounted over the lease term at the rate implicit in the lease.

Rental Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

Derecognition

Finance lease receivables are derecognised when the entity's right to the underlying cash flows expire or when the entity no longer expects economic benefits to flow from the finance lease receivable.

Operating lease liabilities are derecognised when the entity's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the entity's right to the underlying cash flows expire or the entity no longer expects economic benefits to flow from the operating lease asset.

1.11 Inventories

Initial recognition and measurement

Inventories comprise current assets not held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.11 Inventories (continued)

The basis of determining the cost of an inventory is (FIFO) First In First Out and weighted Average method.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follows: as the municipality is a district municipality, it does not hold assets which are specifically used to generate revenue (e.g. infrastructure relating to utilities), other than the farm used to hold biological assets. Other revenue generated by the municipality is in exchange for services provided, for which the related assets (furniture, office equipment, etc.) are interchangeable with the assets used for non-cash generating activities

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follows: as the municipality is a district municipality, it does not hold assets which are specifically used to generate revenue (e.g. infrastructure relating to utilities), other than the farm used to hold biological assets. Revenue generated by the municipality is in exchange for services provided, for which the related assets (furniture, office equipment, etc.) are interchangeable with the assets used for non-cash generating activities; all such interchangeable assets are deemed to be non-cash generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.14 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.14 Employee benefits (continued)

Medical Aid

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actual valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the value projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.15 Provisions

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.15 Provisions (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service Charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made in the last month of the financial year is recognised based on an estimate of the prepaid electricity consumed as at the reporting date with reference to the consumption patterns of the individual users.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement where material, where such lease periods span over more than one financial year.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.17 Revenue from non-exchange transactions

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Deferred Income

Amounts received before the related work is performed are included in the statement of financial position as a liability, Deferred Income

Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Fines constitute both spot fines and summonses.

Revenue from traffic fines is initially measured on the value stipulated on the notice, summons or equivalent document. The revenue from traffic fines is subject to further judicial process which is outside the municipality's control. These reductions are not considered in measuring the revenue and receivable on initial recognition. This is because of the high degree of uncertainty in estimating the likely outcome of this process. Once this separated process has been concluded, any reductions are accounted for as a change in estimated revenue and in accordance with iGRAP1.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Revenue is recognised at the fair value of the consideration received. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

1.18 Value Added Taxation

The Municipality accounts for Value Added Tax on the accrual basis. .

The municipality is registered with the South African Revenue Services (SARS) for VAT on the invoice basis, in accordance with Section 15(1) of the VAT Act No.89 of 1991.

1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.20 Comparative figures

No comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure is an expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.23 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

1.25 Budget information

Municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.26 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.26 Related parties (continued)

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

3. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

4. Inventories

Stores and materials	1 985 542	1 754 973
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Inventory pledged as security

No Inventory pledged as security

5. Vat

VAT is accounted for on an invoice basis

Vat payable	4 831 031	1 008 812
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Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
6. Receivables from non-exchange transactions		
Fines	13 621 597	11 874 014
SETA	1 434 496	1 434 496
Municipal Infrastructure Grant	-	11 067 535
Sundry debtors	5 590 661	5 211 192
Consumer debtors - Rates	15 867 882	13 029 227
	36 514 636	42 616 464
Fines Reconciliation		
Opening Balance fines	18 371 980	17 100 975
Opening Impairment of fines	(6 497 966)	(6 851 454)
Current year fines	2 239 950	1 271 005
Current year recovery on impairment fines	(492 367)	353 488
	13 621 597	11 874 014
Receivables from non-exchange transactions-Rates		
Gross		
Rates	30 636 410	29 550 769
Impairment	(14 768 528)	(16 521 542)
	15 867 882	13 029 227
7. Prepayments		
The year of renewal overlaps to the Municipality's new financial year. The municipality pre-paid for the following licenses :		
Sage licence	90 761	73 760
Firewall licence	52 528	63 728
Anti-virus	107 208	186 900
Microsoft licences	276 810	215 487
	527 307	539 875
8. Receivables from exchange transactions		
Gross balances		
Electricity	16 676 837	15 165 587
Refuse	15 494 860	21 755 146
Fire and other	6 171 163	7 396 688
	38 342 860	44 317 421
Less: Allowance for impairment		
Electricity	(1 477 492)	(1 652 869)
Refuse	(10 624 087)	(11 885 159)
Fire and other	(908 543)	(1 016 387)
	(13 010 122)	(14 554 415)

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
8. Receivables from exchange transactions (continued)		
Net balance		
Electricity	15 199 345	13 512 717
Refuse	4 870 773	9 869 987
Fire and other	5 262 623	6 380 301
	25 332 741	29 763 005
Electricity		
Current (0 -30 days)	8 228 604	8 456 811
31 - 60 days	3 074 702	3 047 249
61 - 90 days	639 538	559 975
91 - 120 days	424 880	258 727
121 - 365 days	302 407	284 708
> 365 days	4 006 706	2 558 117
	16 676 837	15 165 587
Refuse		
Current (0 -30 days)	1 575 496	2 126 550
31 - 60 days	1 107 030	1 636 178
61 - 90 days	856 039	1 344 201
91 - 120 days	754 578	1 230 484
121 - 365 days	1 394 924	1 169 671
> 365 days	9 806 253	14 248 062
	15 494 320	21 755 146
Fire Levy and other		
Current (0 -30 days)	122 326	185 945
31 - 60 days	101 879	200 453
61 - 90 days	89 341	141 951
91 - 120 days	79 746	132 168
121 - 365 days	215 928	130 263
> 365 days	5 561 909	6 605 908
	6 171 129	7 396 688

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
8. Receivables from exchange transactions (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	3 000 263	810 417
31 - 60 days	2 195 063	(1 150 783)
61 - 90 days	1 509 404	378 833
91 - 120 days	1 222 590	607 908
121 - 365 days	1 901 335	4 570 605
> 365 days	18 865 417	12 949 389
	28 694 072	18 166 369
Industrial/ commercial		
Current (0 -30 days)	7 945 042	9 798 755
31 - 60 days	3 470 179	3 966 215
61 - 90 days	788 968	1 120 417
91 - 120 days	486 077	683 646
121 - 365 days	(140 786)	967 384
> 365 days	6 266 271	1 683 359
	18 815 751	18 219 776
National and provincial government		
Current (0 -30 days)	634 127	575 690
31 - 60 days	371 352	660 652
61 - 90 days	123 470	197 898
91 - 120 days	78 509	142 045
121 - 365 days	37 405	971 135
> 365 days	2 751 860	1 231 395
	3 996 723	3 778 815
Total		
Current (0 -30 days)	11 579 433	11 184 862
31 - 60 days	6 036 594	3 476 084
61 - 90 days	2 421 841	1 697 148
91 - 120 days	1 787 176	1 433 599
121 - 365 days	1 797 954	6 509 125
> 365 days	7 555 839	15 864 143
	31 178 837	40 164 961
Less: Allowance for impairment	(13 010 120)	(14 554 416)
Add debtors with credit balances	6 122 570	4 152 460
	24 291 287	29 763 005
Less: Allowance for impairment		
Current (0 -30 days)	(3 468 606)	(3 880 327)
31 - 60 days	(1 658 897)	(1 855 806)
61 - 90 days	(3 619 414)	(4 049 036)
91 - 120 days	(980 258)	(1 096 614)
121 - 365 days	(3 282 948)	(3 672 633)
	(13 010 123)	(14 554 416)

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
8. Receivables from exchange transactions (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(14 554 416)	(10 359 504)
Contributions to allowance	1 544 290	(4 194 912)
	(13 010 126)	(14 554 416)
Fair value of receivables from exchange transactions		
The fair value equates to carrying value due to the short term nature.		
Consumer debtors past due but not impaired		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	7 779 841	2 150 550
2 months past due	3 208 694	2 568
3 months past due	(44 419)	89 575
9. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	20 173	12 333
Bank balances	14 347 112	-
Short-term deposits	103 554 074	116 748 812
	117 921 359	116 761 145
Current assets	117 921 359	116 761 144
Current liabilities	-	(689 883)
	117 921 359	116 071 263

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020		2019	
	R		R	
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9. Cash and cash equivalents (continued)				
The municipality had the following bank accounts				
Account number / description	Bank statement balances		Cash book balances	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
FNB - 620 2002 4258	15 532 828	4 327 306	14 347 112	(689 883)
FNB 620 4994 7825	19 677 982	44 621 966	19 677 982	44 621 696
FNB 620 9521 8947	1 000	1 000	1 000	1 000
FNB 620 610 2682	24 667	23 835	24 667	23 835
FNB 620 8937 2868	1 000	1 000	1 000	1 000
FNB 621 8992 7663	247 440	218 745	247 440	218 745
FNB 621 9170 1476	2 887	7 186	2 887	7 186
FNB 621 0368 9230	1 067 556	1 020 812	1 067 557	1 020 812
FNB 621 9024 8221	2 806 748	2 687 152	2 806 748	2 687 152
STD BANK 308 644 085	1 936 716	1 826 803	1 936 716	1 826 803
NED BANK 0371 6501 3687	86 310	81 129	86 310	81 129
FNB 623 0064 1611	2 237	2 235	2 237	2 235
NED 716 501 3660	3 953	1 000	3 953	1 000
NED 0371 6501 4276	114 813	107 921	114 813	107 921
ABSA 207 483 6976	15 007 781	13 920 797	15 007 781	13 920 797
ABSA BANK 20-7551-2256	6 989 455	6 442 661	6 989 455	6 442 661
NED BANK 50110597/9997 - 037165022295	14 803 478	13 914 776	14 803 478	13 914 776
DOE 63875 1558 80001	12 778 549	4 616 916	12 778 549	4 616 916
NED BANK 37165021256	6 876 434	6 463 619	6 876 434	6 463 619
STD BANK 638516196-012	15 388 864	14 166 285	13 945 737	14 166 286
STD BANK 638516196-011	7 179 330	6 623 244	7 179 330	6 623 244
Total	120 530 028	121 076 388	117 901 186	116 058 930

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
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10. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land & Buildings	100 033 382	-	100 033 382	96 650 610	-	96 650 610

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Total
Land & Buildings	96 650 610	3 382 771	100 033 382

Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Land & Buildings	93 526 497	3 124 113	96 650 610

Pledged as security

No assets pledged as security

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was 1 July 2017. Revaluations were performed by an independent valuer, Mr Boateng [SACPVP, IAAO & GIS], of Khanyisa Property valuations. Mr Boateng is not connected to the entity and has recent experience in location and category of the investment property being valued. The valuation was based on open market value for existing use

For investment property, where there was a lack of comparable market data, the valuation was based on discounted cash flows. The following assumptions were used :

Rental revenue and interest rate increases and prevailing interest rates

These assumptions are based on current market conditions.

The last valuation came into effect on 1 July 2017. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations. Valuations are performed every 5 years.

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	1 876 336	2 003 928
Expenditure incurred to repair and maintainance of Investment Property	640 984	-

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R			2019 R		
11. Property, plant and equipment						
	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	124 893 488	(91 738 094)	33 155 394	124 893 488	(90 583 677)	34 309 811
Motor vehicles	18 342 259	(10 360 561)	7 981 698	17 230 224	(8 919 745)	8 310 479
Infrastructure	654 052 344	(359 767 402)	294 284 942	636 836 534	(334 883 187)	301 953 347
Community	202 460 239	(104 506 012)	97 954 227	191 092 069	(101 168 345)	89 923 724
Other property, plant and equipment	46 255 883	(32 662 223)	13 593 660	44 529 816	(28 126 688)	16 403 128
Capital work in progress infrastructure	57 164 067	-	57 164 067	24 856 574	-	24 856 574
Capital work in progress community	94 467 933	-	94 467 933	68 587 378	-	68 587 378
Total	1 197 636 213	(599 034 292)	598 601 921	1 108 026 083	(563 681 642)	544 344 441

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Transfers	Depreciation	Total
Land and Buildings	34 309 811	-	-	(1 154 417)	33 155 394
Motor vehicles	8 310 479	1 112 035	-	(1 440 816)	7 981 698
Infrastructure	301 953 347	-	17 215 811	(24 884 216)	294 284 942
Community	89 923 724	-	11 368 170	(3 337 667)	97 954 227
Other property, plant and equipment	16 403 128	1 726 071	-	(4 535 539)	13 593 660
Capital work in progress infrastructure	24 856 574	60 891 474	(28 583 981)	-	57 164 067
Capital work in progress community	68 587 378	25 880 555	-	-	94 467 933
	544 344 441	89 610 135	-	(35 352 655)	598 601 921

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land and Buildings	35 601 070	-	-	-	-	(1 291 259)	34 309 811
Motor vehicles	3 431 909	6 530 292	(1 021 425)	-	1 021 424	(1 651 721)	8 310 479
Infrastructure	298 741 924	-	-	27 872 541	-	(24 661 118)	301 953 347
Community	93 163 642	-	-	-	-	(3 239 918)	89 923 724
Other property, plant and equipment	14 117 979	5 846 110	(23 010)	-	-	(3 537 951)	16 403 128
Capital work in progress infrastructure	33 036 867	19 692 248	-	(27 872 541)	-	-	24 856 574
Capital work in progress community	8 092 736	60 494 642	-	-	-	-	68 587 378
	486 186 127	92 563 292	(1 044 435)	-	1 021 424	(34 381 967)	544 344 441

Pledged as security

Carrying value of assets pledged as security.

A register is kept at the municipal offices in terms of MFMA.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
11. Property, plant and equipment (continued)		
Expenditure incurred to repair and maintain property, plant and equipment		
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	-	6 808 359
General expenses	14 262 155	9 386 648
	14 262 155	16 195 007

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
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12. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	4 315 527	(2 806 618)	1 508 909	4 182 309	(2 465 603)	1 716 706

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software	1 716 706	133 218	(341 015)	1 508 909

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	2 063 224	(346 518)	1 716 706

Pledged as security

None of intangible assets pledged as security.

The register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
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13. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Statue	954 000	-	954 000	954 000	-	954 000
Museum	1 112 400	-	1 112 400	1 112 400	-	1 112 400
Total	2 066 400	-	2 066 400	2 066 400	-	2 066 400

Reconciliation of heritage assets 2020

	Opening balance	Total
Statue	954 000	954 000
Museum	1 112 400	1 112 400
	2 066 400	2 066 400

Reconciliation of heritage assets 2019

	Opening balance	Additions	Transfers received	Total
Statue	-	-	954 000	954 000
Work in progress	784 000	170 000	(954 000)	-
Museum	1 112 400	-	-	1 112 400
	1 896 400	170 000	-	2 066 400

No impairment Loss that is recognised during the current financial year.

14. Payables from exchange transactions

Trade payables	704 418	1 104 977
Unallocated deposits	14 528 934	14 454 811
Accrued leave pay	8 481 663	6 996 164
Other payables	158 183	929 873
Debtors with credit balances non- exchange and exchange services	6 627 445	4 669 939
Retentions	6 064 528	3 866 101
Creditor accruals	16 772 131	5 619 149
	53 337 302	37 641 014

15. Consumer deposits

Electricity	4 524 843	4 444 984
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Consumers on application for electricity connections pay consumer deposits. The deposit is repaid when connections are terminated. Consumer deposits are refunded to the owner when a house or building is sold after the Municipality has issued a clearance.

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
16. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Intergrated National Electrification Programme	614 557	3 457 964
Furniture world	226 413	226 413
Horseshoe Township	1 574 992	1 528 247
IDP Community participation	85 672	85 672
Industrial Park	177 382	177 382
Peoples Housing Project 12 and 13	26 702	28 294
Shayamoya Eco- Complex	31 743	31 743
Small Town Rehabilitation	95 508	95 508
Cultural Village	5 596 688	55 541
Housing account	2 027 209	128 918
Sports & Recreation	20 806	20 806
Massification	41 352	41 352
Disaster COVID19 grant	2 333	-
	10 521 357	5 877 840

17. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for performance bonus	1 956 143	2 001 719	(311 692)	(1 644 452)	2 001 718

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for performance bonus	2 514 652	1 956 143	(712 433)	(1 802 219)	1 956 143

Performance bonuses are paid one year in arrear as the assessment of eligible employees had not taken place at the reporting date.

The balance of the performance bonus provisions relate to amounts not yet paid and eligible employees awaiting assessment for 2019/2020 financial year.

18. Deferred income

Electricity Units purchases unused	1 636 992	1 107 161
Sale of land	2 429 130	2 429 130
	4 066 122	3 536 291

Deferred Income relates to unused electricity credits .

Income was received for the sale of land which the risks and rewards are still with the municipality. This refers to:

- Erf 2291
- Erf 2293
- Erf 383
- Erf 4684
- Erf 8275

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
19. Retirement benefits and long term service awards		
Defined benefit plan		
The plan is a post employment medical benefit plan.		
The amounts recognised in the statement of financial position are as follows:		
Non-current liabilities	23 327 004	20 157 058
Current liabilities	1 312 000	1 108 476
	24 639 004	21 265 534
Post employment health care benefits		
Opening balance	(16 365 346)	(10 995 364)
Net actuarial gains pr (losses) recognised	(1 257 077)	(4 236 383)
Current service costs	(740 632)	(180 074)
Interest cost	(1 509 290)	(1 001 134)
Contributions by employer	632 346	47 609
	(19 239 999)	(16 365 346)
Long service awards		
Opening balance	(4 900 188)	(4 020 642)
Net actuarial gains or (losses) recognised	(37 677)	(880 995)
Current service costs	(553 657)	(370 161)
Interest cost	(383 613)	(314 305)
Contributions by employer	476 130	685 915
	(5 399 005)	(4 900 188)

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

2020	2019
R	R

19. Retirement benefits and long term service awards (continued)

PeHCL report

Assumptions used at the reporting date:

Post-Employment Medical Aid subsidy liability

Key Financial Assumptions

Table 5.1 summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year. The next contribution rate increase is assumed to occur at 1 January 2020

Table 5.1: Key financial assumptions

Assumption	Value p.a.
Discount rate	10.65%
Health care cost inflation rate	6.68%
Net-of-health-care-cost-inflation discount rate	3.72%
Maximum subsidy inflation rate	4.64%
Net-of-maximum-subsidy-inflation discount rate	5.75%

Key Demographic Assumptions

Table 5.2 summarises the key demographic assumptions used.

Key demographic assumptions

Assumption	Value
Average retirement age	62
Continuation of membership at retirement	75%
Proportion with a spouse dependant at retirement	60%
Proportion of in-service non-members joining a scheme by retirement and continuing with the subsidy thereafter	25%
Mortality during employment	SA 85-90
Mortality post-employment	PA(90) -1 with a 1% mortality improvement p.a. from 2010
Withdrawal from service (sample annual rates)	See Table A4.2

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

2020	2019
R	R

19. Retirement benefits and long term service awards (continued)

Accrued Liability (R millions)

Category	30/06/2019	30/06/2020
In-service members	8.945	8.432
In-service non-members	0.000	4.243
Total in-service	8.945	12.675
Continuation members	7.421	6.565
All members		
Total liability	16.365	19.240
Value of assets	0.000	0.000
Unfunded liability	16.365	19.240
Expected current portion of liability (payable within 12 months)	0.632	0.654
Expected non-current portion of liability (payable thereafter)	15.733	18.586

Comparison of assumptions

Assumption	30/06/2019	30/06/2020
Discount rate	9.40%	10.65%
Health care cost inflation rate	6.68%	6.86%
Net-of-health-care-cost-inflation discount rate	2.38%	2.38%
Maximum subsidy inflation rate	4.77%	4.77%
Net-of-maximum-subsidy-inflation discount rate	4.42%	4.42%
Average retirement age	62	62
Mortality during employment	SA 85-90	
Mortality post-employment	PA(90) -1 with a 1% mortality improvement p.a. from 2010	PA(90) -1 with a 1% mortality improvement p.a. from 2010
Withdrawal rates	Updated per Table A4.2	
Proportion with a spouse dependant at retirement	60%	60%
Continuation of membership at retirement	75%	75%

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
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19. Retirement benefits and long term service awards (continued)

Proportion of eligible in-service non-members joining a scheme by retirement and continuing with the subsidy at and after retirement (“take-up rate”)	0%	25%
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Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	Eligible Employees	Continuation members	Total	Change
Central assumptions		12.675	6.565	19.240	
Health care inflation rate	+1% -1%	14.334 10.885	6.666 6.385	21.000 17.270	9% -10%
Discount rate	+1% -1%	10.732 15.149	6.081 7.123	16.813 22.272	-13% 16%
Post-employment Mortality	+1 YR +1 YR	12.367 12.978	6.382 6.744	19.722 20.511	3% 7%
Average retirement age	+1 YR	13.946	6.565	20.511	7%
Continuation of membership at retirement	+1%	9.896	6.565	16.461	-14%

Withdrawal rates

This Valuation		
Age	Females	Males
20	9%	9%
25	8%	8%
30	6%	6%
35	5%	5%
40	5%	5%
45	4%	4%
50	3%	3%
55	0%	0%
> 55	0%	0%

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
20. Service charges		
Sale of electricity	118 490 580	109 142 420
Refuse removal	19 947 917	23 496 337
Other services charges	2 401 796	1 166 168
	140 840 293	133 804 925
21. Rental of facilities and equipment		
Premises		
Rental of facilities	1 876 336	2 144 956
22. Licences and permits		
Testing ground and licensing	3 096 644	3 173 751
23. Other revenue		
Proceeds from sale of land	-	1 651 723
Other income	2 960 382	4 879 431
	2 960 382	6 531 154
24. Investment revenue		
Interest revenue		
Interest earned - external investments	9 105 379	8 877 410

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
25. Property rates		
Actual		
Residential	36 251 399	25 972 119
Commercial	31 087 149	27 687 543
Public service infrastructure	24 382	11 660
Government	62 382 965	54 934 790
Industrial	12 038 799	13 771 633
Agriculture	12 599 835	11 444 133
Sectional titles	2 054 805	1 805 969
Less: Income forgone	(41 138 507)	(5 819 342)
	115 300 827	129 808 505
Interest received - outstanding receivables	3 794 507	4 453 581
	119 095 334	134 262 086

Interest is levied on outstanding rates per annum at 15 %.

Valuations

Residential	3 047 087 000	3 053 985 643
Commercial	1 147 655 500	1 061 834 000
Public benefit organisation	66 235 000	64 160 000
Municipal Properties	535 172 000	569 882 500
Government	1 500 141 500	1 471 493 500
Industrial	429 053 000	466 318 500
Agricultural	3 780 948 039	3 784 582 989
Public service infrastructure	25 910 500	23 131 000
Place of worship	99 838 000	64 554 500
	10 632 040 539	10 559 942 632

Valuations on land and buildings are performed every five years. The last valuation came into effect on 1 July 2017. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations.

Category	Rate Charge
Agriculture	0.003634
Government	0.036342
Residential	0.014536
Commercial	0.029074
Industrial	0.029074
Public Service Infrastructure	0.003634
Municipal	0.014536
Indigent	0.0138813
Pensioners	0.0138813
Public benefit org	0.003634
Place of worship	0.0138813

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

2020	2019
R	R

25. Property rates (continued)

Category Of Owner	House hold Income from and to.	Age from and to	Percentage Rebate
Indigent persons	Nil	Amount Equal to 2 state pensions	100%
Child headed households (see criteria below)	Nil	Amount Equal to 2 state pensions	100%
A pensioner or Retiree		60 - 65	55%
A pensioner or Retiree		66 - 70	75%
A pensioner or Retiree		71 and above	100%
Disabled person or Medically boarded	Amount Equal to 2 pensions +1	Amount Equal to 4 state pensions	55%
Disabled person or Medically boarded	Amount Equal to 4 state pensions + R1	Amount Equal to 6 state pensions	40%
Disabled person or Medically boarded	Amount Equal to 6 state pensions + R1	Amount Equal to 8 state pensions	25%
Disabled person or Medically boarded	Amount Equal to 8 state pensions +	Amount Equal to 12 state	10 %

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
26. Government grants and subsidies		
Operating grants		
Equitable share	61 663 000	55 683 000
FMG	1 800 000	1 800 000
Sport and Recreation	-	74 577
SETA	266 810	-
Expanded Public Works Programme	3 700 000	1 311 000
Arts and Culture	2 182 000	2 070 000
Covid 19	593 668	-
	70 205 478	60 938 577
Capital grants		
Small Towns Rehabilitation	-	227 994
Emergency equipment grant	-	4 430 610
Intergrated National Electrification Programme	15 843 406	14 711 384
Municipal Infrastructure Grant	10 250 465	32 090 834
Housing account	9 017 031	2 318 422
Massification grant	-	4 958 646
Cultural village	10 158 853	4 944 459
	45 269 755	63 682 349
	115 475 233	124 620 926
Equitable Share		
In terms of the Constitution this grant is used to subsidise the provision of basic services to indigent community members:		
Unconditional grants received	61 663 000	55 683 000
Unconditional grant Transferred to revenue	(61 663 000)	(55 683 000)
	-	-
Financial Management Grant - FMG		
Current-year receipts	1 800 000	1 800 000
Conditions met - transferred to revenue	(1 800 000)	(1 800 000)
	-	-
This grant is used for implementation of MFMA, finance reforms and payment of intern's salaries.		
Municipal Infrastructure Grant - MIG		
Balance unspent at beginning of year	(11 067 535)	(1 525 701)
Current-year receipts	22 111 845	22 549 000
Conditions met - transferred to revenue	(11 044 310)	(32 090 834)
Transferred to debtor	-	(11 067 535)
This grant is used for for road infrastructure as part of upgrading of infrastructure projects.		
Small Town Rehabilitation		
Balance unspent at beginning of year	95 508	323 442
Conditions met - transferred to revenue	-	(227 934)
	95 508	95 508

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
26. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 16).		
This grant is used for development in town like upgrading sidewalks, parkings and storm water drainage.		
Horseshoe Township		
Balance unspent at beginning of year	1 528 248	1 476 419
Current-year receipts	46 744	51 829
	1 574 992	1 528 248
This grant is used for upgrading informal settlement areas within the Municipality.		
Massification		
Balance unspent at beginning of year	41 354	-
Current-year receipts	-	5 000 000
Conditions met - transferred to revenue	-	(4 958 646)
	41 354	41 354
Conditions still to be met - remain liabilities (see note 16).		
Arts and culture		
Balance unspent at beginning of year	-	113
Current-year receipts	2 182 000	2 070 000
Conditions met - transferred to revenue	(2 182 000)	(2 070 000)
Other	-	(113)
	-	-
This grant is used for the provision of staffing costs for Library services within the Municipality.		
Sports and Recreation		
Balance unspent at beginning of year	20 806	-
Current-year receipts	-	50 000
Conditions met - transferred to revenue	-	(29 194)
	20 806	20 806
Conditions still to be met - remain liabilities (see note 16).		
This grant is used for upgrading and maintenance of Sport field.		
Community Participation Grant		
Balance unspent at beginning of year	85 672	85 672
Conditions still to be met - remain liabilities (see note 16).		
This grant is for IDP compilation and processes.		
EPWP		
Current-year receipts	3 700 000	1 311 000
Conditions met - transferred to revenue	(3 700 000)	(1 311 000)

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
26. Government grants and subsidies (continued)		
	-	-
EPWP Grant is used to expand job creation efforts in specific focus areas where labour intensive delivery methods can be measured		
Shayamoya eco complex		
Balance unspent at beginning of year	31 743	31 743
Grant is used to boost local economic tourism and environment.		
Light industrial park		
Balance unspent at beginning of year	177 382	177 382
Grant is used to build infrastructure to boost small to medium businesses.		
Furniture World		
Balance unspent at beginning of year	226 413	226 413
The Grant is used to provided on the job training for the youth , capacitating them for job readiness .		
SETA		
Balance unspent at beginning of year	(1 434 496)	(1 434 496)
Current-year receipts	266 810	-
Conditions met - transferred to revenue	(266 810)	-
Transferred to debtor	(1 434 496)	(1 434 496)
The Grant is used to provided on the job training for the youth , capacitating them for job readiness		
Integrated National Electrification Programme		
Balance unspent at beginning of year	3 457 964	255 348
Current-year receipts	13 000 000	17 914 000
Conditions met - transferred to revenue	(15 843 407)	(14 711 384)
	614 557	3 457 964
Conditions still to be met - remain liabilities (see note 16).		
This grant is used for the upgrade of bulk electricity infrastructure		
Cultural Village (Cogta)/ shayamoya Internal Roads (EPWP)		
Balance unspent at beginning of year	55 541	5 000 000
Current-year receipts	15 700 000	-
Conditions met - transferred to revenue	(10 158 853)	(4 944 459)
	5 596 688	55 541
Conditions still to be met - remain liabilities (see note 16).		
This grant is used to boost the local tourism sector.		
Emergency Equipment Grant		

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
26. Government grants and subsidies (continued)		
Balance unspent at beginning of year	-	4 430 610
Conditions met - transferred to revenue	-	(4 430 610)
	-	-

This grant is used to equip the municipalities Fire fighting capabilities and response to disasters .

Disaster COVID19 grant

Current-year receipts	596 000	-
Conditions met - transferred to revenue	(593 667)	-
	2 333	-

Conditions still to be met - remain liabilities (see note 16).

Disaster COVID grant that is used to fight pandemic.

Housing

Balance unspent at beginning of year	128 918	-
Current-year receipts	13 071 119	128 918
Conditions met	(11 172 828)	-
	2 027 209	128 918

Conditions still to be met - remain liabilities (see note 16).

Provide explanations of conditions still to be met and other relevant information.

27. Fines, Penalties and Forfeits

Fines	2 772 700	1 378 782
Illegal Connections Fines	30 051	-
Overdue Books Fines	300	-
	2 803 051	1 378 782

28. Revenue

Service charges	140 840 293	133 804 925
Rental of facilities and equipment	1 876 336	2 144 956
Licences and permits	3 096 644	3 173 751
Proceeds on sale of assets	-	1 651 723
Other income	2 960 382	4 879 431
Interest earned -external investment	9 105 379	8 877 410
Property rates	115 300 827	129 808 505
Interest earned - outstanding receivables	3 794 507	4 453 581
Government grants & subsidies	115 475 233	124 620 926
Public contributions and donations	3 297 307	-
Fines and Penalties	2 803 051	1 378 782
Fines impairment recovery	-	353 488
Recovery of provision	1 644 452	1 802 218
	400 194 411	416 949 696

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
28. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	140 840 293	133 804 925
Rental of facilities and equipment	1 876 336	2 144 956
Licences and permits	3 096 644	3 173 751
Proceeds from sale	-	1 651 723
Other income	2 960 382	4 879 431
Interest earned - external investment	9 105 379	8 877 410
	157 879 034	154 532 196
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	115 300 827	129 808 505
Interest earned - outstanding receivables	3 794 507	4 453 581
Transfer revenue		
Government grants & subsidies	115 475 233	124 620 926
Recovery for Provision Debtors	3 297 307	-
Fines and Penalties	2 803 051	1 378 782
Fines impairment recovery	-	353 488
Recovery of provision	1 644 452	1 802 218
	242 315 377	262 417 500

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
29. Employee related costs		
Basic	79 331 421	72 002 463
Bonus	4 620 897	5 005 450
Medical aid - company contributions	5 338 802	4 784 686
UIF	647 335	608 471
SDL	428 539	1 020 488
Leave pay provision	2 494 237	3 060 110
Pension fund	14 539 164	12 834 259
Travel, motor car, accommodation, subsistence and other allowances	5 382 689	5 580 842
Overtime payments	7 780 823	6 465 009
Housing benefits and allowances	1 288 161	1 559 087
Performance bonus Provision	2 001 718	1 956 143
Interest on post employment benefits	1 892 903	1 315 439
Current Service Cost	1 294 289	550 234
	134 202 825	116 742 681
Remuneration of Municipal Manager		
Annual Remuneration	917 425	1 004 774
Car Allowance	261 554	261 554
Cellphone , rural and other allowances	260 064	136 033
Back pay	28 326	22 541
	1 467 369	1 424 902
Remuneration of Chief Financial Officer		
Annual Remuneration	616 441	642 772
Car Allowance	203 409	203 409
Cellphone , rural and other allowances	102 931	49 394
Back pay	27 657	11 391
	950 438	906 966
Remuneration of Community Services Executive Manager		
Annual Remuneration	593 155	557 227
Car Allowance	158 435	141 031
Performance Bonuses	-	103 728
Leave and back pay	27 657	6 669
Cellphone , rural and other allowances	171 190	-
	950 437	808 655
Remuneration of Infrastructure Planning and Development Executive Manager		
Annual Remuneration	704 063	499 363
Car Allowance	162 727	114 212
Cellphone , rural and other allowances	55 990	138 147
Back pay	27 657	4 271
	950 437	755 993
Remuneration of Corporate Services Executive Manager		
Annual Remuneration	757 040	750 180
Car Allowance	36 000	36 000
Cell Phone , rural and other allowance	129 740	109 394

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
29. Employee related costs (continued)		
Back pay	27 657	11 391
	950 437	906 965
Remuneration of Economic Development & Spatial Planning Executive Manager		
Annual Remuneration	550 336	432 763
Car Allowance	131 054	114 212
Performance Bonuses	-	45 000
Contributions to UIF, Medical and Pension Funds	122 400	52 000
Bonus/ 13th cheque	63 000	60 000
Back pay	27 657	3 458
Cell Phone , rural and other allowance	55 990	47 104
	950 437	754 537
30. Remuneration of councillors		
Mayor	901 659	868 549
Former Mayor	-	190 684
Deputy Mayor	729 488	512 316
Speaker	729 488	703 000
Executive Committee Member	-	177 821
Councillors	3 271 142	3 002 793
Councillors' allowances	1 259 159	1 220 240
Councillors' pension and medical contributions	691 143	526 096
	7 582 079	7 201 499
In-kind benefits		
The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.		
The Mayor has three full-time bodyguards . The Deputy Mayor and speaker have two full-time bodyguards.		
31. Depreciation and amortisation		
Property, plant and equipment	35 352 654	34 381 967
Intangible assets	341 015	346 518
	35 693 669	34 728 485
32. Debt impairment		
Debt written off	16 345 553	2 299 738
33. Bulk purchases		
Electricity - Eskom	98 433 057	86 852 689

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
34. Contracted services		
Burial services	108 705	148 685
Financial Management Systems	4 837 354	2 957 279
Legal Advice and Litigation	6 376 335	4 254 459
Professional Services	3 609 176	4 332 094
Research and Advisory	494 500	267 283
Security services	8 301 523	7 249 941
Town planning services	253 509	478 018
Valuation services	655 749	919 400
	24 636 851	20 607 159
35. General expenses		
Advertising	2 193 418	2 030 730
Auditors remuneration	2 311 098	2 388 667
Bank charges	526 716	758 852
Third party Commission	2 710 963	-
Materials maintenance	14 008 646	9 084 828
Departmental electricity consumption	681 643	367 900
Collection costs	3 738 203	2 086 774
Bursaries	149 180	103 999
Stocks and materials	3 029 176	1 842 169
Staff wellness	478 241	280 786
Insurance	1 392 383	1 544 428
Conferences and seminars	1 366 632	1 600 962
Pound management fees	364 000	280 000
ICT services	2 692 731	2 192 950
Rentals buildings and vehicles	338 131	394 003
Subscription & memberships	2 253 241	1 992 777
Fuel and oil	2 705 756	2 954 931
Postage and courier	338 438	781 132
Printing and stationery	30 000	120 947
Rental of surveillance cameras	83 001	125 040
Telephone and fax	1 071 703	1 252 055
Training	3 500	445 515
Travel and accommodation	2 102 762	2 896 893
Uniforms	2 859 882	2 296 666
Licence fees	221 282	2 154 787
Other expenses	6 275 936	8 664 824
GIS	83 903	110 163
	54 010 565	48 752 778

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
36. Cash generated from operations		
Surplus	20 903 164	79 498 024
Adjustments for:		
Depreciation and amortisation	35 693 669	34 728 485
Loss sale of assets and liabilities	-	23 012
Proceeds on sale of land	-	(1 651 723)
Fair value adjustments	(3 382 771)	(3 124 113)
Provision for consumer impairment	492 367	8 956 794
Debts written off	16 345 553	2 299 738
Movements in retirement benefit assets and liabilities	3 373 470	6 249 528
Movements in provisions	45 575	(558 509)
Loss on actuarial	(1 294 754)	(5 627 683)
Other non-cash items	336 869	(103 452)
Current service costs	(1 294 289)	(550 234)
Fines recovery	-	(353 488)
Rates impairment recovery	(3 297 307)	-
Performance bonus addition non cash	2 001 720	1 956 143
Recognition deferred revenue	(1 636 991)	(3 858 836)
Interest on post employment benefits	(1 892 903)	1 315 439
Leave accrual adjustment	2 494 237	729 731
Provision recovery	(1 644 451)	(1 802 218)
Rates impairment recovery		
Inventory	(230 569)	(253 764)
Trade and other receivables	(4 430 264)	(5 707 557)
Revenue from non-exchange	6 101 828	(18 719 345)
Prepayments	12 568	832 709
Payables from exchange transactions	15 696 288	7 096 072
Unspent conditional grants and receipts	4 643 518	(6 157 332)
Consumer deposits	79 859	245 988
VAT payable	3 696 777	2 003 972
Deferred income	(529 831)	(4 097 786)
	92 283 332	93 369 595

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
37. Commitments		
Already contracted for but not provided for		
• Infrastructure	100 735 932	96 985 041
• Community	26 501 376	24 768 519
	127 237 308	121 753 560
Total capital commitments		
Already contracted for but not provided for	127 237 308	121 753 560
Total commitments		
Total commitments		
Authorised capital expenditure	127 237 308	121 753 560
This committed expenditure relates to plant and equipment and infrastructure projects and will be financed by available bank facilities, accumulated surpluses, existing cash resources, funds internally generated, etc.		
Funding		
Expenditure will be financed from		
Government grants	101 846 087	91 972 824
Own revenue	25 391 220	29 780 736
	127 237 307	121 753 560

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

2020	2019
R	R

38. Contingencies

CONTINGENT LIABILITY

GREATER KOKSTAD MUNICIPALITY VS ILEGALI OCCUPIERS ERF 1 (MUNICIPALITY QUARRY KOKSTAD)

Eviction of illegal occupiers and demolition of structures from the municipality property.

SINKSHOW CONSTRUCTION VS GREATER KOKSTAD MUNICIPALITY

Demand for the return of construction material and currently there is a rescission of Default Judgment granted and the amount claimed is R 100 000.

GREATER KOKSTAD MUNICIPALITY VS SIBIYA

Sibiya is suing Municipality for damages under vicarious liability He claim R151 154.00.

GREATER KOKSTAD MUNICIPALITY VS HOOSEN KHARVA

The Hoosen Kharva is suing the municipality There was water pipes maintenance which was handled by Hurry Gwala District Municipality at Kokstad Municipality. At Hoawthorn Street, Kokstad one of the Hoosen Kharva motor vehicle collided with a hole and hip of soil that was dug in the process of repairing water pipe problem and was not properly zoned out with accident tapes and signs. Then it claimed R33 707.68 plus interest of 15.5% for damages it suffered repairing its car.

GREATER KOKSTAD MUNICIPALITY VS IKAMVA ARCHITECTS CC

Then Ikamva issued civil claim against Municipality for the services rendered.

GREATER KOKSTAD MUNICIPALITY VS ANDIMAHLE TRADING

The adjudicator delivered a determination in terms of which the Municipality was ordered to pay Andimahle approximately R9.1 million. Municipality was dissatisfied with the order and ought to proceed to arbitration.

GREATER KOKSTAD MUNICIPALITY VS BAWINILE BAMBELO

Bawinile Veronica Bambelo, Themba Bambelo and Siphiwe Bambelo are suing Municipal, National Minister of Transport and MEC Transport for a total amount of R669 022.00 for Motor Vehicle ACCIDENT.

GREATER KOKSTAD MUNICIPALITY VS KOKSTAD PRIVATE HOSPITAL

Kokstad private hospital has sued GKM for an amount of R1 349 401.29.

GREATER KOKSTAD MUNICIPALITY VS PRIMROSE T.COETZE

Mrs PT Coetze seeks reinstatement with full back pay salary from the date of dismissal to date of a possible order reinstating her should she succeeds at arbitration.

GREATER KOKSTAD MUNICIPALITY VS DOLLY BIHL

Review Application by Ms Bihl.

CONTINGENT ASSETS

GREATER KOKSTAD MUNICIPALITY vs KIBO LODGE CC

GKM suing Kibo Lodge CC an amount proximately R104 698.00 for Municipality Rates

GREATER KOKSTAD MUNICIPALITY VS TOGOS

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
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38. Contingencies (continued)

The attorneys have been given a status report on the developments in this case and they have briefed Advocate Gani. The prospects of success in this matter were discussed and it was decided that the Municipality will enter into settlement negotiations with the other side to ensure that the Municipality obtains some value. The estimated envisaged cost is R100 000.

GREATER KOKSTAD MUNICIPALITY VS FEZ BUILDING CONSTRUCTION.

This is an action claiming R 4 342 991 for breach of a construction contract. Summons has been issued and served, and the matter is defended.

GREATER KOKSTAD MUNICIPALITY VS TURF INC

GKM sued Turf Inc & 2 Others for the sum of R1 652 632.65 for non-performance in terms of agreement.

GREATER KOKSTAD MUNICIPALITY VS CEBO MANTSHAYANA

GKM evict Mr C Mantshayana from ERF 60 Bhongweni, which is valued at R118 500.00.

39. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by it. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	51 138 875	-	-	-

Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Market risk

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
39. Risk management (continued)		
Interest rate risk		
As the municipality has interest-bearing assets such as investments, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.		
40. Irregular expenditure		
Opening balance as previously reported	258 437 746	47 580 496
Irregular expenditure current year	-	106 397 028
Opening balance as restated	258 437 746	153 977 524
Add: Irregular Expenditure - prior years contravention of 33	-	25 704 122
Add: Expenditure identified - prior period	-	93 867 321
Less: written off by council	(214 344 242)	(15 111 221)
Irregular expenditure awaiting for condonment	44 093 504	258 437 746
41. Fruitless and wasteful expenditure		
Opening balance	600 529	584 621
Add: Fruitless and wasteful expenditure - current year	-	15 908
	-	-
Less: Amount written off - current	(111 067)	-
Closing balance	489 462	600 529
42. Deviation from supply chain management regulations		
Original dealer	471 950	1 372 368
Emergency	3 266 401	5 173 791
Impossible to follow the SCM process	2 535 882	1 088 358
Total Section 36 deviations for the financial year	6 274 233	7 634 517
Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process. Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements. The majority of items mentioned had to be addressed in short notice and the response times did not allow for the complete procurement process.		
43. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	1 441 670	1 292 630
Amount paid - current year	(1 441 670)	(1 292 630)
	-	-
Audit fees		
Current year subscription / fee	2 311 098	3 378 306
Amount paid - current year	(2 311 098)	(3 378 306)
	-	-

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
43. Additional disclosure in terms of Municipal Finance Management Act (continued)		
PAYE, UIF & SDL		
Current year subscription / fee	20 339 643	18 308 182
Amount paid - current year	(20 339 643)	(18 308 182)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	31 242 909	27 386 351
Amount paid - current year	(31 242 909)	(27 386 351)
	-	-
Councillors' arrear consumer accounts		
No Councillors had arrear accounts outstanding at 30 June 2020.		
No Councillors had arrear accounts outstanding at 30 June 2019		
Award to close family member		
None has been awarded to a close family member in the current year.		
44. Electricity losses		
2020		
The municipality has identified electricity losses in units 13 114 761 with an estimated value of R 15 447 877.		
2019		
The municipality has identified electricity losses in units 7 620 814 with an estimated value of R7 750 368.		
45. In Kind assistance		
The municipality received in kind assistance from Provincial Treasury "		
- Contract management		
- SCM compliance assessment		
- SCM bid committee training		
46. Events after the reporting date		
There were no material non-adjusting events that came to the attention of management after the reporting date.		
47. Key sources of estimation, uncertainty and judgements		
The following areas involve a significant degree of estimation uncertainty:		
- Impairment testing		
- Present value of defined benefit obligation		
- Fair value estimation		
- Provision for doubtful debts		

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
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47. Key sources of estimation, uncertainty and judgements (continued)

- Useful life assessment of PPE and intangible
- Allowance for doubtful debts

48. Budget Variance Explanation

- 1)Service charges: The decrease is due to higher tariffs and the block tariff consumers utilized less than expected units
- 2)Rental facilities: The increase was due to the municipality having established a property management section, and additional rental facilities provided
- 3)Licences and permits: The decrease was due to the migration of customers to other licensing departments to obtain their licenses
- 4)Provision for performance bonus recovery: The increase was due to a recovery on the provision for performance bonus, which was based on a 14% of annual package but subject annual assessments of managers. The performance criteria was not met.
- 5)Depreciation and asset impairment: The decrease was due a number of infrastructure assets having not been capitalized.
- 6)Debt Impairment: The Increase is due to municipalities' debt collection avenues the debt impairment is the last resort after all processes have been exhausted. There was a cleaning up of the debtors book.
- 7)Material & Bulk purchases: The decrease is to NERSA approving the final tariffs after the municipal budget has been approved
- 8)Contracted Services: The decrease is due the municipalities implementation of cost containment measures

49. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At cost	Total
Inventories	1 985 542	1 985 542
Receivables from non-exchange transactions	36 514 636	36 514 636
Prepayments	527 307	527 307
Receivables from exchange transactions	25 332 741	25 332 741
Cash and cash equivalents	117 921 359	117 921 359
	182 281 585	182 281 585

Financial liabilities

	At cost	Total
Consumer deposits	4 524 843	4 524 843
Unspent conditional grants	10 521 358	10 521 358
Provisions	2 001 720	2 001 720
Trade and other payables from exchange transactions	53 337 302	53 337 302
Vat	4 705 589	4 705 589
Deferred Income	4 066 122	4 066 122
Employee benefit obligation	24 639 004	24 639 004
	103 795 938	103 795 938

2019

Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020 R	2019 R
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49. Financial instruments disclosure (continued)

Financial assets

	At cost	Total
Inventories	1 754 973	1 754 973
Receivables from non-exchange transactions	42 616 464	42 616 464
Prepayments	539 875	539 875
Receivables from exchange transactions	29 763 005	29 763 005
Cash and cash equivalents	116 761 145	116 761 145
	191 435 462	191 435 462

Financial liabilities

	At cost	Total
Consumer deposits	4 444 984	4 444 984
Unspent conditional grants	5 877 841	5 877 841
Provisions	1 956 143	1 956 143
Trade and other payables from exchange transactions	37 641 013	37 641 013
Vat payables	1 008 812	1 008 812
Deferred Income	3 536 291	3 536 291
Employee benefit obligation	21 265 534	21 265 534
	75 730 618	75 730 618

50. Related parties

Accounting Officer

Refer to accounting officer's report note

Key Management Information

Class

Description

Municipal Manager
Chief Financial Officer
Community Services Executive Manager
Infrastructure Planning and Development
Corporate Services Executive Manager
EDPS Executive Manager

Accounting Officer
Senior Management
Senior Management
Senior Management
Senior Management
Senior Management

Remuneration of Management

Councillors

Refer to general information page for full list of councillors.

Executive Management

Refer to note "Employee Related Costs"

Payment of remuneration of senior managers and councillors - details of payments are set out in notes 29&30.